



## CONGRESSIONAL BUDGET OFFICE PAY-AS-YOU-GO ESTIMATE

October 27, 1998

### **H.R. 633**

### **Department of State Special Agents Retirement Act of 1998**

*As cleared by the Congress on October 20, 1998*

#### **SUMMARY**

H.R. 633 increases retirement benefits for employees in the Foreign Service who are covered by the Foreign Service Retirement and Disability System (FSRDS) and perform duties of a law enforcement nature. Under this legislation, retirement annuities for these employees will be calculated in the same manner as benefits for law enforcement personnel who are covered by the Civil Service Retirement System (CSRS). The act will also set a mandatory retirement age of 57 for these employees and criminal investigators working in the Agency for International Development (AID). CBO estimates that H.R. 633 will increase direct spending by \$4 million over the 1999-2003 period.

#### **ESTIMATED COST TO THE FEDERAL GOVERNMENT**

The estimated budgetary impact of H.R. 633 is shown in Table 1. The cost of this legislation falls within budget function 600 (Income Security). For purposes of enforcing pay-as-you-go procedures, only the effects in the budget year and the succeeding four years are counted.

TABLE 1. SUMMARY OF PAY-AS-YOU-GO EFFECTS OF H.R. 633

	By Fiscal Year, in Millions of Dollars									
	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Changes in outlays	0	1	1	1	1	1	1	1	1	1
Changes in receipts	0	0	0	0	0	0	0	0	0	0

## BASIS OF ESTIMATE

The budgetary impacts of H.R. 633 are shown in Table 2.

TABLE 2. ESTIMATED BUDGETARY IMPACTS OF H.R. 633

	By Fiscal Year, in Millions of Dollars				
	1999	2000	2001	2002	2003
<b>CHANGES IN DIRECT SPENDING</b>					
FSRDS Retirement Benefits	a	1	1	1	1
Agency Retirement Contributions (Receipts)	- a	- a	- a	- a	- a
Subtotal	a	1	1	1	1
<b>CHANGES IN REVENUES</b>					
Employee Retirement Contributions	a	a	a	a	a
<b>TOTAL COST</b>					
Direct Spending and Revenues	a	a	1	1	1

a = Less than \$500,000.

Foreign Service employees who were hired before 1987 are generally covered by the Foreign Service Retirement and Disability System. Under FSRDS, employees contribute 7 percent of their basic pay towards retirement benefits, with the employing agency contributing an equal amount. (The actual current rate is slightly higher due to a temporary increase enacted as part of the Balanced Budget Act of 1997 (BBA).) Employees may retire voluntarily once

they reach the age of 50 and have completed 20 years of service; they face mandatory retirement when they reach age 65 or spend too much time in their class without being promoted. Under prior law, retirement benefits for all FSRDS employees equaled 2 percent of an employee's average pay for each year of service. Most employees hired after January 1, 1987, are covered by the Foreign Service Pension System (FSPS).

H.R. 633 allows certain employees (termed "special agents") who are covered by FSRDS and perform duties of a law enforcement nature to have their annuities calculated using a more generous formula. Special agents will be able to use a 2.5 percent rate for their first 20 years of service instead of the old rate of 2 percent. This will match the formula used for law enforcement personnel who are covered by CSRS. In order to be eligible, employees will have to complete 20 years of service as a special agent and be at least 50 years old. Employees who worked as special agents while in FSRDS and have since elected to join FSPS will also be eligible for the higher rate, but the rate will apply only to service as an agent under FSRDS. The act will also set a mandatory retirement age of 57 for special agents and criminal investigators in AID.

## **Direct Spending**

**FSRDS Retirement Benefits.** H.R. 633's provisions will affect primarily current agents who elect to be covered by the act. Current agents electing to be covered will be required to make a deposit into the Foreign Service retirement trust fund equal to the additional 0.5 percent in retirement contributions they would have paid under law enforcement rates during their career, plus interest. Agents who do not make this deposit will be required to take an actuarially equivalent reduction in their annuity.

According to the State Department, about 200 current employees will qualify as special agents under H.R. 633. CBO assumes that all of them elect to be covered by the act's provisions. The higher 2.5 percent accrual rate will boost annuities for many agents by 15 to 20 percent. CBO assumes that this increase will induce half of the special agents to retire a year earlier than they would have under prior law. Finally, CBO assumes that all of the agents will take an actuarial reduction in their annuity (which will amount to 1 to 2 percent) rather than making the required deposit (which for many agents will be about \$10,000). CBO estimates that spending on FSRDS retirement benefits will increase by about \$270,000 in 1999 and \$960,000 in 2003.

The mandatory retirement age included in the act will affect only a handful of employees. According to the State Department, almost all Foreign Service employees retire before age 57 either voluntarily or under the time-in-service requirements.

**Agency Retirement Contributions.** The legislation will increase receipts by the Foreign Service trust fund by increasing the amount that special agents in FSRDS contribute towards their retirement from 7.0 percent to 7.5 percent. This will be the same rate paid by law enforcement personnel in the similar CSRS program. (The actual rate is slightly higher during the 1998-2002 period because of the BBA.) Since the State Department makes retirement contributions at the same rate paid by employees, agency contributions will also increase, raising receipts by about \$70,000 in 1999 and \$45,000 in 2003.

## **Revenues**

Receipts from employee retirement contributions will rise slightly since the legislation will raise the rate paid by special agents a half percentage point to 7.5 percent. The amount of the annual increase will be less than \$45,000.

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